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FISCAL IMPACT STATEMENT

LS 7101 **NOTE PREPARED:** Feb 25, 2005
BILL NUMBER: HB 1835 **BILL AMENDED:** Feb 24, 2005

SUBJECT: Credit for certain homestead property taxes.

FIRST AUTHOR: Rep. Ayres **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill establishes, subject to approval by the county fiscal body, a credit for property taxes on a homestead in the amount by which the taxes exceed 2% of the assessed value of the homestead. The bill authorizes the county to borrow money to fund the credit, subject to repayment over not more than five years by the county and political subdivisions in the county.

Effective Date: Upon passage.

Explanation of State Expenditures: State expenses for PTRC and Homestead Credits could be reduced under this bill. The reduction is possible because the levy allowed under this bill would already be part of the current maximum levy and it would be used to retire debt (PTRC and homestead credits are not paid on levies used to retire debt). The amount of state expense reduction would depend on the amount of the repayment levies in a year. PTRC and homestead credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if balances are not available in the PTRF.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Beginning in CY 2006 this bill would give each county the option of providing property tax credits to homeowners whose net property tax on their homestead, after all credits are applied, exceeds 2% of the homestead's gross assessed value (AV). The credit would equal the amount of tax that exceeds the 2% threshold. No application is required to receive the credit. The county auditor would identify the eligible homesteads and apply the credit.

The county would be permitted to borrow money for a term of up to 5 years to pay for the credits. If the county borrows money in order to fund the credit, the civil taxing units and school corporations in the county would be required to repay the loan. Civil units and school corporations would be permitted to impose a property tax levy to repay the debt. This levy would be subject to the unit's maximum permissible levy limit. Also, the debt repayment would not be allowed to serve as a basis for obtaining an excessive levy. So, the bill does not grant any additional levy authority.

However, if a taxing unit receives riverboat admissions tax and wagering tax revenues either directly or through a local agreement, that unit must use that revenue to repay the loan before imposing a levy.

If the property tax credits are granted, but not funded through a loan, the credits would reduce the tax collections that are distributed to local civil taxing units and school corporations with no replacement. The additional levy discussed above can only be imposed to repay the county's debt incurred for this purpose. So, if the county does not fund the credits with a loan, the entire cost of the credit would be a local revenue reduction.

An analysis of 2004 net property tax rates applicable to homesteads in each taxing district was performed to determine the number of counties and taxing districts where the credits could be triggered. The calculation of the net tax rate begins with the district gross tax rate and then nets out PTRC, state homestead credit, and both COIT- and CEDIT-funded local homestead credits (if applicable). Home values in varying amounts up to $5 M were tested for qualification. The gross assessed value used was reduced only by the $35,000 standard deduction. No other deductions were applied.

Using a maximum $5 M assessed value, the results indicated that there are 208 taxing districts (out of 1,950 total in the state) in 51 counties where the credit might apply. The following table includes the results for all of the home values tested. The last column shows the number of taxing districts where a homestead could qualify for the credit as compared to the total number of taxing districts in the affected counties.

Qualification for Homeowners Credit Equal to Tax in Excess of 2% of Gross Assessed Value		
Home Value Tested	**Cumulative Number of Counties Where Credit Would Apply**	**Cumulative Number of Tax Districts Where Credit Would Apply / Total Tax Districts In Affected Counties**
$20,000	1	5 of 46
100,000	3	16 of 112
150,000	9	41 of 282
200,000	13	59 of 399
250,000	19	77 of 524
300,000	22	89 of 580
400,000	31	120 of 812
500,000	34	133 of 896
750,000	38	156 of 997
1,000,000	42	169 of 1,083
5,000,000	51	208 of 1,223

These calculations do not include deductions such as those for mortgage holders, elderly homeowners, or veterans. The application of deductions to gross value reduces the ratio of net tax to gross AV, thereby reducing the number of qualifying homesteads. This explains why it is possible in a single district to have, for example, $200,000 homes that qualify but not $150,000 homes. Changes to the net tax rate, gross assessed value, and deductions from year to year could cause an increase or reduction in qualifying homesteads (depending on the change in net tax rate relative to the change in a homestead's AV).

State Agencies Affected:

Local Agencies Affected: All local civil taxing units and school corporations in counties that adopt the credit; County fiscal bodies.

Information Sources: Local Government Database.

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